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SUBJECT: Honduras: Public Unrest Over Gasoline Price
Spike; Partial Price Reduction Fails to Halt Strikes

REF: A: Tegucigalpa 1837

B: Tegucigalpa 1842

1. Summary: Unusually effective strikes by taxi drivers hit major urban centers on September 6-7, following a 25 percent increase in gasoline prices in the wake of Hurricane Katrina. Whether prompted by easing markets or political pressure, the GOH walked back nearly half of the increase on September 6. The two leading presidential candidates and leading opposition figures have come out against the increase, while the GOH maintains the increases are necessary. To ease the impact on Honduran workers, President Ricardo Maduro has proposed and private enterprise has resisted a one-time salary bonus to all workers. End Summary

2. Reacting to spot-market price spikes following Hurricane Katrina damage to key U.S. Gulf coast refineries, the GOH raised domestic gasoline prices September 6 by 17 lempira (25 percent) to 85 lempiras (approximately USD 4.50). Gasoline prices in Honduras are set by the GOH, based on a complex formula that adjusts periodically to market swings, while also guaranteeing profit margins to importers, transport companies, and distributors. International Monetary Fund resident Representative Hunter Monroe told EconChief on September 7 that when the spot prices for gasoline began to fall again over the weekend, application of this formula led the GOH to reduce the price by 7 Lempira (about U.S. 40 cents). While most observers assumed this price cut to be a reaction to public outcry against the sharp price hike, Monroe was confident the reduction was the result of technical adjustments rather than politics. As of September 6 (prior to the reduction) Honduran gas prices were the highest in Central America.

3. The GOH receives over 40% of its approximately 35,000 to 40,000 barrels per day of petroleum products from the U.S., mainly from Gulf coast refineries. In addition to knocking out eight major refineries on the coast, Hurricane Katrina took down two key fuel pipelines. While the pipelines are now back at full capacity, the outages caused product shortages at terminals along those pipelines. The six main gasoline companies in Honduras (Esso, Shell, Texaco, Dippsa, Hondupetrol, Gas del Caribe) normally maintain a two-week reserve supply per Honduran law.

4. Even at spot prices, the prices for these gasoline reserves -- purchased over the last two weeks -- were much lower than current prices. On this basis, opposition and community leaders were quick to denounce the prompt price increases at the pumps, in the belief that these represent windfall profits for the "multinational companies." Catholic Church Cardinal Oscar Andrs Rodriguez called the increase "unethical", while both Liberal Party presidential candidate Manuel "Mel" Zelaya and National party presidential candidate Porfirio "Pepe" Lobo called for immediate reductions in gasoline prices. In response, Minister of Industry and Commerce Irving Guerrero reiterated that the GOH must not sacrifice fiscal responsibility, calling the situation "too complex for the people" while emphasizing that the GOH was "not a political but a technical government" and that they will not be drawn in by "demagoguery". (Comment: Post does not believe the gas stations are making windfall profits, as the higher prices charged today are used as operating capital to purchase new (more expensive) gasoline supplies tomorrow, resulting in no net gain to the distributor beyond his normal profit. End Comment.)

5. In reaction to the price hikes, taxi and bus drivers went on strike throughout the country on Tuesday Sept 6, with hundreds of taxis in Tegucigalpa blocking intersections and the main highways in and out of the city. The drivers are protesting higher fuel prices and calling for a reduction in

pump prices and an increase in taxi fares. The protest has been largely non-violent, though Post has received reports of isolated vandalism and rock throwing at cars attempting to navigate blocked roads throughout the day (ref A). The strike continued through September 7, with the president of the Public Transit Association indicating the length of the strike "depends on how seriously the government wants to negotiate." A meeting is scheduled for the afternoon of September 7 at 4pm between Minister of Transportation and Public Works Jorge Carranza and the striking taxi drivers. (Comment: Post anticipates this meeting will yield a taxi fare surcharge to offset higher fuel costs. End Comment.)

16. Private industry took a strong position against the price increases, with the president of the National Industries Association Adolfo Facusse stating the latest reduction was too little too late, and did not mirror the recent reduction in world prices. President Ricardo Maduro's recent initiative to force private industry to defray price increases for their workers by paying a one-time salary "bonus" (ref B) has also angered industry. Added to their own higher energy costs, industrialists fear the bonus payments would force layoffs or even business closings. Jesus Canahuati, the President of the Honduran Maquiladores Association, said that if industry is forced to pay the bonuses, "the cure would be more expensive than the sickness."

17. Comment: Energy prices continue to provide grist for the electoral mill, as Honduras approaches its November 27 presidential and Congressional elections. Candidates of all stripes have proposed several unwise populist quick-fixes to the energy crisis, including cutting energy taxes, eliminating fuel surcharges, encouraging the state to nationalize and monopolize fuel purchases, reopening existing energy contracts with a view to reducing previously agreed pricing structures, and, most recently, requiring the private sector to pay salary bonuses to help workers face rising energy costs. The GOH is also undertaking other, more measured policies, such as expanding targeted electricity subsidies for the poor, and transportation subsidies for the poor and for students. Post and the IMF continue to watch events with interest, and will seek to ensure that GOH policies neither wreak havoc with carefully crafted fiscal disciplines nor prejudice foreign investors with signed and sealed contracts. End Comment.

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